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March 22, 2001

Honorable Robert O'Farrell
Presiding Judge of the Superior Court
Monterey County
P. O. Box 1819
Salinas, CA 93902

REF: Grand Jury 2000 Final Report, January 2, 2001

Dear Judge O'Farrell:

Thank you for this opportunity to respond to findings and recommendations of the 2000 Grand Jury Report section on "Monterey Bay Contamination, Part 1, Beach Closures and Sewage Spills." Please accept the following as the response of the City of Pacific Grove to those findings and recommendations.

Finding Number 1 (page 78): While we agree with the tenor of this paragraph, the finding is not totally accurate. Not all areas in the County transport sewage water to the Monterey Regional Water Pollution Control Agency (MRWPCA). Pacific Grove does collect sewage for transport to the Marina facility. We believe the general statement that "some coastal cities' storm drain systems empty directly into Monterey Bay" is overly simplistic and does not account for any of the variations of topography, density of development, location of collection facilities, ability to place retention basins or facilities within drainage areas, or the fact that drainage basins do not recognize city boundaries thereby allowing for storm water from various jurisdictions to flow into a single city and then into the Bay.

Finding Number 2 (page 78): Once again, we agree with some of the generalized statements of this paragraph of the finding but find that the statement is not totally accurate. We also are discouraged that, although mentioned in the background section, there is no review of the causes of beach closures of Monterey, Carmel, and Pebble Beach.

It is true that the City's sewage collection system has many sections that were built in the late 1800 and early 1900s, but there is no analysis of whether such pipes are the cause of Bay contamination. We are unaware of any Grand Jury review of the October report of Parson' Engineering Science, Inc. that details the

collection system age and suspected quality and would hope that reports of the media were not the basis of these findings. Media reports concerning this subject during the last six months of the year 2000 were highly inaccurate and misinformed.

Finding Number 3 (page 78-79). We agree with this finding and point to the following information concerning the City's efforts to eliminate grease from the sewage collection system.

RESPONSE TO GRAND JURY RECOMMENDATIONS:

Recommendation Number 1 and 2:

This is a review of the changes in the sewage collection system operation, maintenance, and capital improvement program that was presented to the City Council at their meeting of February 21, 2001.

Basically there are five components to Pacific Grove's modified sewer maintenance program. They are:

1. New Cleaning Schedule
2. Rapid Response to Sewer Upset
3. Grease Trap/Interceptor Program
4. Public Information Program (commercial/residential)
5. Increase Available Funding for Sewer maintenance and capital needs.

New Cleaning Schedule:

Beginning in June 2000, our sewer cleaning crew was ordered to exclusively clean lines with our hydro-jet trucks on a full time basis. When minor construction work is required, the Street crew does this work so that the sewer crew can continue the cleaning process uninterrupted. This work has put a strain on the equipment used by the crew; therefore, part of the capital program outlined is to purchase a new truck for cleaning operations during the next fiscal year. Additionally during the year 2000, the City completed smoke testing of 75% of the City collection system to detect and repair cross connections between storm drain and sewage collection system. All known cross connections between the City's two systems have been repaired. The final 25% of the system will be completed this year.

Rapid Response to Sewer Upset:

We have developed an emergency response protocol for all potential sewer blockages and potential spills in which the Pacific Grove Fire Department is the first responder to all such calls. The Fire Department treats these calls as hazardous materials responses and immediately establishes an emergency incident command center with a goal to:

Safeguard and protect the health and safety of the public and emergency response personnel; Conduct emergency response to mitigate hazards and life safety risks; and, isolate, confine, neutralize, and remove all contaminants.

Grease Trap/Interceptor Program:

At their meeting of January 17, 2001 the Council approved a proposal to assist the food service establishments in meeting the current oil/grease reduction regulations.

A. Priority listing is based on probability of grease pollution

A priority listing was developed which classifies food service establishments by the probability of allowing grease into the sewer system. In conjunction with MRWPCA we have divided establishments into four categories:

Priority 1	Very high grease impact potential
Priority 2	Moderately high grease impact potential
Priority 3	Moderate-low grease impact potential
Priority 4	Minimal-no grease impact potential

Each of the priority categories has a different schedule of making changes to their grease removal equipment, including the possibility of no change if there is no potential for grease to enter the system.

B. Time to comply with requested changes

Businesses are given four months to install grease traps, and eight months to install interceptors, from the date of notification by the City. During our review it was clear that some installations will receive a significantly longer period of time to make changes, based on a low possibility to add grease to the system.

Letters have been sent to all Priority One establishments informing them of their responsibility to install grease removal systems. Letters to Priority Two and Three will be completed by the end of March. Penalties for non-compliance include the requirement to install a grease interceptor in order to stay in business.

C. Cost of new installations or upgrades

Council also approved a program of low interest loans with payments up to five years for the installation of new grease traps or interceptors. The proposed program would be as follows:

1. For Grease Interceptor only: Maximum \$20,000.
2. For Grease Traps: Maximum \$7,500.

Loans up to \$2,000 would be repaid in one year at 3% interest, from \$2,001 to \$7,500 in three years at 5% interest, and from \$7,501 to \$20,000 in five years at 5% interest. Loans would be for actual cost of installation of new equipment according to recommendations of MRWPCA. The City has arranged with a local bank to work with business owners to provide funds for installation. The City and MRWPCA are discussing a regional program with Agency funds.

D. Replacement of newer equipment installations (grandfather clause)

This is a question of fairness. Several business owners have indicated that they have recently replaced or installed grease reduction equipment on the advice of the City and MRWPCA. Typical equipment is installed with a life expectancy of 3-5 years. Additionally, in 1995 and 1996 all businesses were inspected and many were asked to make upgrades at that time.

Therefore, Council approved a plan that for any installations made after 1997, owners be given at least five years from the date of installation prior to requiring any changes in equipment. This assumes that the equipment is still functional and the owner is following an accepted maintenance and reporting program. Once the five-year period has elapsed owners will be required to upgrade to equipment that meets the current Best Practices as determined by the MRWPCA.

E. Reuse and Recycling existing equipment

Some businesses have existing equipment that needs to be replaced but is still functional. The MRWPCA will ensure that such equipment is functional once it is removed from the system and the City will provide a

place to store these used pieces of equipment. This equipment will then become available to other businesses that have a lower capacity need at a lower cost or no cost depending on the giving business owner's wishes.

Hopefully we could recycle into use any working piece of equipment that is replaced.

F. Education program by City and MRWPCA

Materials are being developed at this time to provide educational materials to food service establishments and others interested in the oil/grease reduction program.

Public Information Program:

At their meeting of March 7th, 2001, the City Council approved a residential public information program designed to inform citizens on methods to reduce grease that enters the City's collection system. The program envisions direct mailings, visits to local schoolrooms, school contests, local media advertisements including both print and radio spots, and special events booths. The first year program costs are estimated to be \$24,500, which was approved by the Council. Additionally, some information has already been included in the *Pacific Grove Review*, February 2001 edition, and a significant amount of information has been distributed to business contacts made during the Grease Removal inspections.

Increase Available Funding for Sewer maintenance and capital needs:

At their meeting of February 21, 2001, the City Council approved an increase of the sewer surcharge over a period of three years from the current rate of 50% of the Monterey Regional Water Pollution Control Agency's (MRWPCA) sewer service charge to 100% of the MRWPCA surcharge. The action by the Council followed a discussion of the following information.

I. Background

Since the early 1970's, the City has had the responsibility to maintain a waste water collection system composed of approximately 58 miles of pipe, 823 manholes, and a series of pump stations which carry all of the waste water to the regional waste water treatment plant in Marina. Prior to that time, the City also processed wastewater at a plant on Sunset Drive near the Pacific Grove Municipal Golf Links.

The method of financing maintenance and improvements to the waste water collection system since the change to the regional system has been through revenues collected as a surcharge charge on Monterey Regional Water Pollution Control Agency's (MRWPCA) sewer service charges. A copy of the current MRWPCA monthly rate schedule is attached (Exhibit 1).

A surcharge of 50% of the MRWPCA rate has been in effect since 1992. Previously the surcharge was:

Current Surcharge Rate	=	50%
Rate from 1989 to 1992	=	35%
Rate Prior to 1989	=	25%

The MRWPCA monthly rate schedule has not changed since 1991.

The City has established a specific fund to account for City sewer program finances, the Sewer Enterprise Fund. All spending for sewer activities and all revenues received for sewer programs are part of this Fund. The Fund works as an enterprise fund, or a separate company operating within the City. Therefore, the Sewer Enterprise Fund must balance revenue and expenditures each year.

The history of the Sewer Enterprise receipts is shown below:

<u>Fiscal Year</u>	<u>Amount Received</u>
1999-2000	\$559,520
1998-1999	587,572
1997-1998	598,975
1996-1997	582,493
1995-1996	599,458

The amounts received are very stable, although some minor fluctuations have occurred over the years.

II. The Current Situation

In October 2000, the Council accepted a report from Parsons' Engineering Science, Inc. of Monterey, entitled *Summary Report on Capital Improvement Program for the Waste Water Collection System*. Within the report was a recommendation on which capital improvements should be made to the city's system over the next twenty years. The report also included a list of immediate actions that should be taken in order to repair parts of the system deemed critical. A list of those repairs is attached (Exhibit 2), showing a total cost of \$1,064,000.

The report indicated that future repairs to the City's aging system would proceed at a rate of about \$2.5 million per year.

However, the engineering report failed to take into account the City's ability to generate revenues in the amounts suggested in the report. Therefore, the City has taken action to implement an on-going capital improvement program that will make improvements at a constant, although slower, pace through the coming years. This program will allow the City to plan for both the immediate capital needs and an annual capital improvement from known revenues, while searching for extraordinary revenues such as grants and other outside revenues that are available from time-to-time.

III. Possible Funding Methods

There are several methods of financing major capital improvements. These include grant funding, debt issuance, redirection of current operating (general fund) funds, and generation of new funds from increased service charges.

- A. Grant Funds – Occasionally grants from state and federal agencies become available for maintenance and capital costs of city services. Currently, funding is available on a limited basis from recent statewide initiatives and possibly federal EPA grants. The staff is developing applications from a couple of sources, although we do not feel that these sources are viable long-term solutions to our capital improvement needs.
- B. Debt Issuance – Using debt issuance is a traditional method of financing long-term improvements. In all cases, sufficient revenues are required in order to pledge enough funds to make timely payments on the debt. Debt issuance can be either through bonds or long-term loans. There are some low cost loan programs available to cities that are designed for infrastructure improvements. Debt issuance is only practical when improvements are costly, are of one-time nature, and have a long useful life.
- C. Redirection of Current Sewer Operating Funds – This is the simplest method of financing capital improvements, assuming that there are monies available. In fact, the City has been financing capital improvements using this method for many years. These improvements include pump stations, line replacements, and other major improvements to the Sewer system. Unfortunately, increased improvements as called for in the engineer's report would require a significant increase in revenues. The City has not regularly transferred General Fund money into the Sewer Enterprise Fund to make these types of improvements.
- D. Generation Of New Money From Increase In Sewer Charges – This is a normal method of financing all operations in the sewer and

other enterprise departments. However, no changes in revenues have been made since the surcharge was last changed in 1992. This is the proposal staff would recommend as the basis for making improvements to the sewer system and increasing maintenance activities.

IV. City Council's Action to Raise Funds

The City Council chose to attack the issue of undertaking major capital improvements for the wastewater collection system in two phases. First, complete the critical repair items on Exhibit 1 as soon as possible; and second, plan for on-going capital improvements at a higher rate than past years while continuing a higher level of maintenance activities.

Initially the Council raised the sewer surcharge fee from 50% to 70% in the first year. In subsequent years it will be raised additionally so that by July 1, 2003, the rate would be 100% of the MRWPCA sewer charges.

Changes to the surcharge will raise revenues as shown below:

<u>Surcharge Rate</u>	<u>Approximate Dollar Raised</u>
Current 50%	\$560,000
70%	784,000
85%	952,000
100%	1,120,000

As stated above, a raise from 50% to 70% effective July 1, 2001, will raise an additional \$224,000 each year, and a raise from 70% to 85% effective July 1, 2002, will raise an additional \$392,000 a year over current revenues, and from 85% to 100% effective July 1, 2003, will raise an additional \$560,000.

Residential rates would change as shown on the chart below.

Surcharge %	MRWPCA Rate	City Surcharge	Total Monthly Rate	Total Annual Increased Cost
50%	\$9.30	\$4.65	\$13.95	
70%	\$9.30	\$6.51	\$15.81	22.32
85%	\$9.30	\$7.90	\$17.20	39.00
100%	\$9.30	\$9.30	\$18.60	55.80

Commercial rates are varied but would increase accordingly.

V. Proposed Use of Additional Funds

As mentioned above, funds from additional revenues will be used in two areas. The first would be to finance the Critical Repair Capital Improvement Program during the first year of the new fees.

The City will issue bonds in the amount of \$1.5 million to pay for the Critical Repair Capital Improvements at an annual cost between \$102,000 to \$107,000 per year. The bond issue would provide funds for all of the first phase of the Capital Improvement Program. Depending on the actual cost of the program, the bond would be adjusted as needed.

A second major component of the capital and maintenance program will be the purchase of a new sewer maintenance truck. Estimated cost of this truck is \$150,000.

Therefore, first year revenue would go to financing the Critical Repair Program and purchase the new truck.

Second year revenues will be used to increase the maintenance efforts by adding additional cleaning activities in critical areas, probably through contract with an outside agency, and beginning additional capital improvements as proposed in the engineering report while continuing debt service payments. Each additional year will show an increased amount of funds available for capital improvements of about \$400,000, after the initial bond debt service is paid.

Although this method of financing would not complete the proposed improvements in the Parsons' report, it would double the city's sewer revenues and allow the City to spend nearly \$500,000 annually on capital improvement funding.

VI. Summary

Recommendation Number 1: The City Council and the community are aware that there is a need to increase funds to be spent on the wastewater collection system. There is a direct relationship between sewer surcharge fees and sewer maintenance and capital improvement costs. Fees generated by a surcharge on the MRWPCA sewer rate have traditionally paid for sewer expenses. An increase in the rate is both an effective and efficient method of generating more funds for sewer maintenance and capital expenditures.

Engineering reports on the City's collection system have been completed and accepted by the City Council. A Capital Improvement Program is being put into

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place to correct the critical areas of the system. Smoke testing of the system has nearly been completed and known cross connections have been eliminated between the city's two systems.

Action in Recommendation #1 has been taken.

Recommendation 2: The City has embarked on a program of grease removal from both commercial and residential users. Pacific Grove's program of grease trap and interceptor installation is more stringent than any other jurisdiction on the Monterey Peninsula. Our program will accomplish the goal of requiring every food service establishment to install grease traps or interceptors within the next two years. Other jurisdictions do not require these types of changes unless a business changes ownership or makes major renovations. The City's residential grease removal information program, developed with the assistance of MRWPCA staff, will provide vital information to residents and visitors on methods to reduce grease in the collection system.

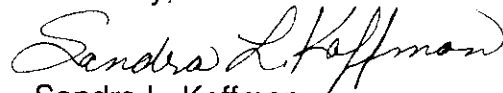
Action in Recommendation # 2 has been taken

Recommendation Number 3 (page 79). This recommendation is under the jurisdiction of the County Health Department. Testing will continue, as Health Department regulations require.

The action in Recommendation # 3 is outside the jurisdiction of the City, therefore no action will be taken by the City of Pacific Grove

We hope this information is helpful in explaining the sewage collection system enhancement program that has been adopted by the City of Pacific Grove.

Sincerely,

A handwritten signature in cursive script that reads "Sandra L. Koffman".

Sandra L. Koffman
Mayor

Attachments